

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 1, 2008 Through April 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Grayson County Sheriff for the period May 1, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,301,722 for the districts for 2008 taxes, retaining commissions of \$301,262 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,842,960 to the districts for 2008 taxes. Taxes of \$99,183 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls
- Accurate And Detailed Receipts And Disbursements Ledgers Should Be Maintained
- The Sheriff Should Correct The Control Deficiencies Noted In The Audit

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Rick Clemons, Grayson County Sheriff

Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the Grayson County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009. This tax settlement is the responsibility of the Grayson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grayson County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls
- Accurate And Detailed Receipts And Disbursements Ledgers Should Be Maintained
- The Sheriff Should Correct The Control Deficiencies Noted In The Audit

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

September 22, 2009

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 562,925	\$ 1,202,038	\$ 3,500,688	\$ 1,075,093
Tangible Personal Property	63,539	164,037	319,876	295,284
Fire Protection	2,562			
Franchise Taxes	33,344	83,827	173,189	
Additional Billings	221	2,187	1,376	422
2007 Unadvertised Gas Bill	1	1	4	1
2007 Unadvertised Additional Bills	135	268	813	258
Oil and Gas Property Taxes	1,207	2,508	7,506	2,301
Limestone, Sand and Mineral Reserves	222	462	1,382	424
Bank Franchises	77,922			
Penalties	5,007	10,941	30,721	10,096
Adjusted to Sheriff's Receipt	(155)	3,505	(3,386)	(668)
Gross Chargeable to Sheriff	<u>746,930</u>	<u>1,469,774</u>	<u>4,032,169</u>	<u>1,383,211</u>
<u>Credits</u>				
Exonerations	3,101	7,023	17,944	5,494
Discounts	11,141	21,002	57,922	21,158
Delinquents:				
Real Estate	16,095	34,408	99,804	30,593
Tangible Personal Property	101	262	511	487
Delinquent 2007 Unadvertised Bills	54	107	323	103
Under \$5 Bills	310	83	237	90
Franchise Taxes	<u>233</u>	<u>602</u>	<u>1,174</u>	
Total Credits	<u>31,035</u>	<u>63,487</u>	<u>177,915</u>	<u>57,925</u>
Taxes Collected	<u>715,895</u>	<u>1,406,287</u>	<u>3,854,254</u>	<u>1,325,286</u>
Less: Commissions *	<u>30,713</u>	<u>59,767</u>	<u>154,170</u>	<u>56,612</u>
Taxes Due	<u>685,182</u>	<u>1,346,520</u>	<u>3,700,084</u>	<u>1,268,674</u>
Taxes Paid	669,258	1,315,626	3,611,828	1,246,248
Refunds (Current and Prior Year)	<u>6,983</u>	<u>10,977</u>	<u>35,274</u>	<u>5,083</u>
Due Districts		**		
as of Completion of Audit	<u>\$ 8,941</u>	<u>\$ 19,917</u>	<u>\$ 52,982</u>	<u>\$ 17,343</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
 RICK CLEMONS, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period May 1, 2008 Through April 15, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,437,468
4% on	\$	3,854,254

** Special Taxing Districts:

Library District	\$	6,194
Health District		3,604
Hospital District		5,538
Extension District		3,213
Caney Creek Watershed District		1,347
Big Reedy Watershed District		21
		<hr/>
Due Districts	\$	<u>19,917</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Grayson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2008 through April 15, 2009.

Note 4. Interest Income

The Grayson County Sheriff earned \$5,340 as interest income on 2008 taxes. The Sheriff was in substantial compliance with his statutory responsibilities regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Grayson County Sheriff collected \$46,182 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Fees

The Grayson County Sheriff collected \$7,560 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of April 15, 2009, the Sheriff owed \$7,560 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Grayson County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009, and have issued our report thereon dated September 22, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grayson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Grayson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grayson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- Accurate And Detailed Receipts And Disbursements Ledgers Should Be Maintained
- The Sheriff Should Correct The Control Deficiencies Noted In The Audit

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiencies to be material weaknesses.

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls
- Accurate And Detailed Receipts And Disbursements Ledgers Should Be Maintained

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Grayson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Grayson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 22, 2009

COMMENTS AND RECOMMENDATIONS

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2008 Through April 15, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:

The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls

During our review of internal controls, we noted the following control deficiencies pursuant to professional auditing standards:

- The Sheriff's bookkeeper collected money, prepared deposits, prepared reconciliations, and prepared daily collection printout. The Sheriff or another individual did not document oversight of any of these activities.
- The Sheriff's bookkeeper prepared monthly reports and prepared checks to taxing districts. The Sheriff or another individual did not document oversight of any of these activities.

No compensating controls were noted to offset this control deficiency. Therefore, the control deficiency as described above is a significant deficiency and a material weakness. The Sheriff should have implemented the compensating controls noted below to offset this internal control weakness.

- The Sheriff's office should reconcile daily checkout sheets to the daily bank deposits. Sheriff's add-on fees, other fees collected, and overpayments should be added to totals per daily checkout sheets to agree to deposits.
- The Sheriff or designee should maintain a receipts ledger to compare to gross collections per the monthly tax reports to ensure tax collection reports are complete.
- The Sheriff or designee should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The Sheriff can document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff or designee should require the monthly tax distribution reports be reconciled monthly to receipts and disbursements ledgers. The Sheriff can document this by initialing the receipts and disbursements ledgers.
- The Sheriff or designee should periodically compare the monthly tax distribution reports to receipts ledger for accuracy. Any differences should have been reconciled. The Sheriff can document this by initialing the monthly tax distribution report.
- The Sheriff or designee can periodically compare payments to taxing districts to checks. The Sheriff can document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff or designee should require monthly bank reconciliations be prepared and periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff can document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff or designee should receive a signed receipt from each taxing district documenting delivery of the tax payments.
- The Sheriff's office should distribute sheriff's fees to the fee account monthly.
- The Sheriff's office should compare amount received per month with amount distributed per month. Any differences should be reconciled.

GRAYSON COUNTY
 RICK CLEMONS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period May 1, 2008 Through April 15, 2009
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:
 (Continued)

The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Over Cash, Reconciliations, Receipts, And Disbursements Without Compensating Controls (Continued)

Sheriff's Response: None.

Accurate And Detailed Receipts And Disbursements Ledgers Should Be Maintained

During our audit, we noted that the Sheriff does not maintain receipts and disbursements ledgers. We believe that this control deficiency is a significant deficiency and a material weakness.

The Sheriff's office does maintain daily checkout sheets that contain the day's collections and copies of the tax bills. However, these daily checkout sheets were not tallied and compared to gross collections on the monthly reports. Overall, gross collections per the original monthly reports for property taxes were understated by \$128,342.65 when compared to the auditor's reprinted monthly report totals. Original Monthly Property Tax Reports were incomplete, and as a result, districts were underpaid by a total of \$99,181.70. Monthly Property Tax Reports were prepared timely, but do not agree to collections per total of deposits. The bookkeeper should reconcile the receipts ledger to the monthly collection report and any differences should be reconciled, documented, and explained.

Sheriff's Response: This was not an oversight – this was a computer error. The software co was contacted as soon as the overage was discovered. Efforts were made by the bookkeeper, software co and field rep to find error. It has been found and corrected.

Auditor's Reply: The problem was that the bookkeeper did not perform reconciliations in time to determine that the software was not producing proper reports. This issue remains unresolved.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff Should Correct The Control Deficiencies Noted In The Audit

During our audit, we noted the following control deficiencies that we do believe are significant deficiencies, but not material weaknesses.

- The bank did not provide copies of the backs of checks to help the reconciler and reviewer determine that the correct entities and individuals are cashing tax checks.
- The Sheriff's office should purchase prenumbered checks to use for all disbursements to ensure all items are accounted for properly.
- The Sheriff's office did not distribute interest earned as required by KRS 134.140 (3)(b).
- The Sheriff's office did not pay advertising fees to the fee account which could be used to purchase items the Sheriff's office needs.
- The Sheriff's office did not pay telecommunication tax commissions should to the fee account on a monthly basis. These commissions could be used to purchase items the Sheriff's office needs.

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 1, 2008 Through April 15, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

The Sheriff Should Correct The Control Deficiencies Noted In The Audit (Continued)

The Sheriff should initiate procedures to ensure that all accounting functions are executed accurately and timely.

Sheriff's Response: None.

